



Congressional Budget Office

February 21, 2013

Unemployment Insurance in 2013 and Beyond

Presentation to the Winter Policy Forum of the
National Association of State Workforce Agencies

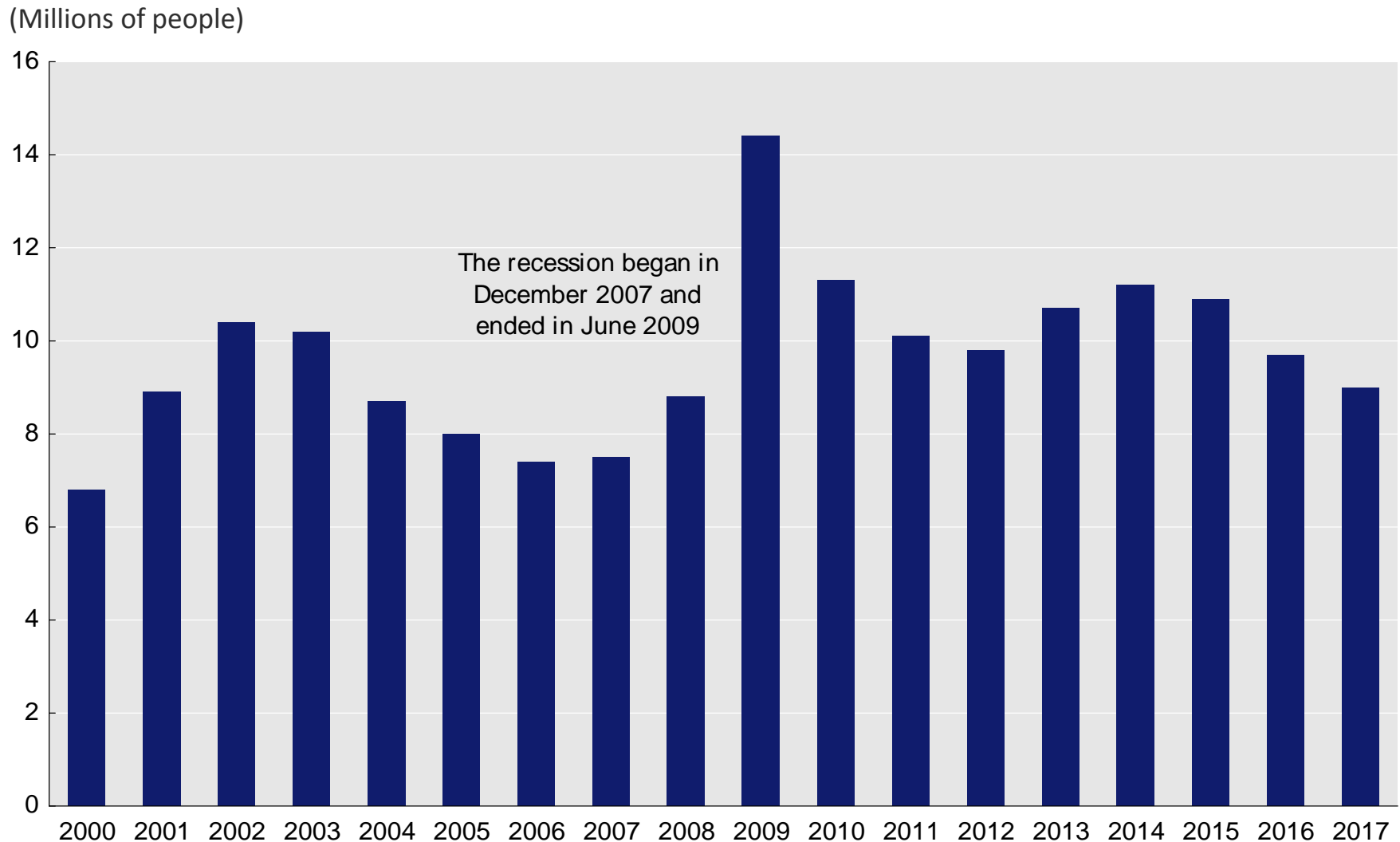
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Full report: *Unemployment Insurance in the Wake of the Recession*, www.cbo.gov/publication/43734

The Unemployment Insurance (UI) System Was Greatly Affected by the Recent Recession and Its Aftermath

- Increased layoffs and weak demand for employment increased the number of first-time UI payments from 8 million in 2004–2007 to 14.4 million in 2009.
- The number of weeks of benefits also increased substantially through two programs:
 - The Extended Benefits (EB) program was in place before the recession but was modified repeatedly afterwards.
 - The Emergency Unemployment Compensation (EUC) program was first implemented in 2008.
- Together with other changes in the UI system, those factors led to large increases in the number of UI recipients and the amount of UI outlays.

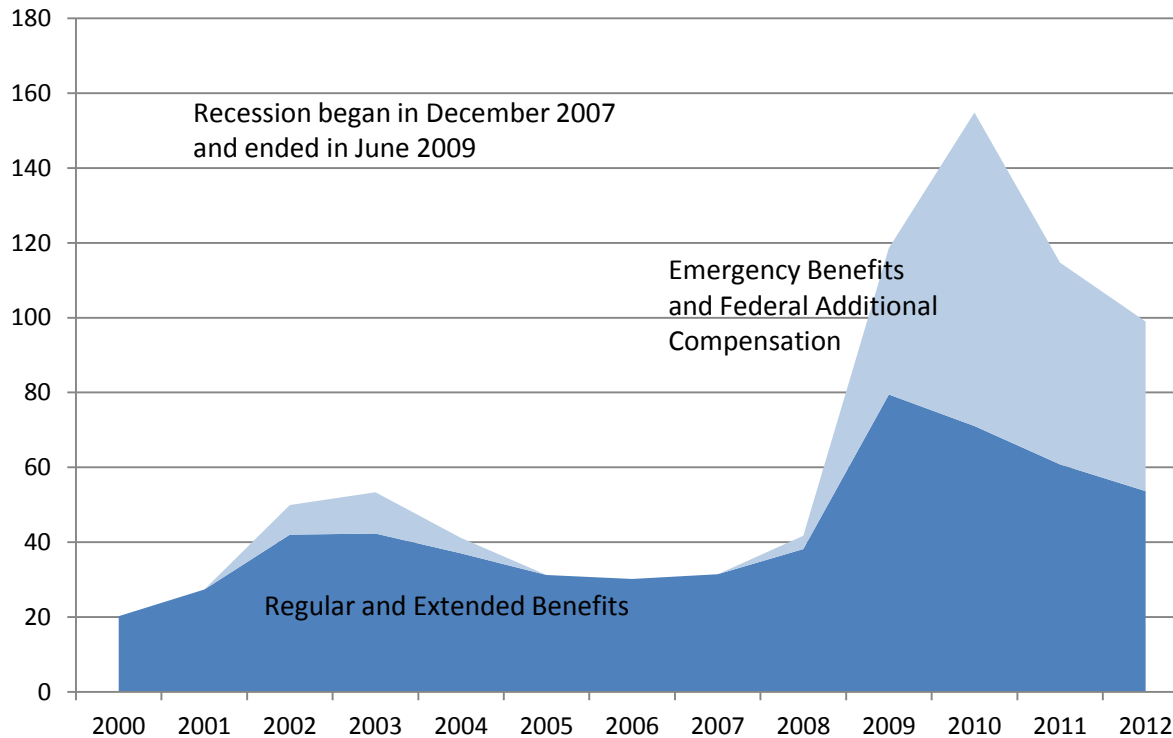
First-Time Payments of UI Benefits, by Fiscal Year



Outlays for Unemployment Benefits, by Fiscal Year

(Billions of dollars)

Outlays for Unemployment Benefits



What Economic Effects Did UI Expansions Produce During and After the Recession?

- UI benefits supported household consumption and provided valuable cash assistance to recipients.
- UI benefits increased incentives for workers who had lost a job to look for work (as a requirement to receive benefits) but reduced the incentives to accept a job offer.
- UI taxes changed employers' and recipients' decisions about employment.
- The UI system served as an automatic economic stabilizer by supporting consumer spending when recipients' income fell, which in turn boosted aggregate economic activity.

Economic Effects of UI on Consumption

- Research shows that UI benefits help households to avoid a decrease in consumption of food and other nondurable items that might otherwise follow a layoff.
- UI benefits allow households to keep more of their savings in forms that are harder to access quickly.
- UI benefits enable workers to take more risks in their careers.

Economic Effects of UI on Job Searches

- UI benefits are contingent on a worker's search for and availability for suitable work.
 - Labor force attachment of unemployed workers rises.
 - Enforcement of work search rules varies considerably among states.
- UI benefits are contingent on a worker's not taking a new job.
 - Workers less likely to find a job while UI is available.
 - Empirical research, while varied, shows small but significant effects.
 - Effects may be smaller during periods of weak labor demand.

Economic Effects of UI Taxes on Employers' and Recipients' Decisions About Employment

- Because firms' payroll taxes do not cover the full cost of UI benefits to the workers that employers lay off, UI subsidizes both the hiring and the laying off of workers.
- Because of experience rating, the system provides slightly less insurance to employers and workers than it would if the funding for UI came from sources other than payroll taxes.
- Businesses might seek to avoid higher UI taxes by misrepresenting layoffs in one of two ways: They might claim to have fired employees for cause or assert that employees left voluntarily.

Economic Effects of UI as an Automatic Economic Stabilizer

- Automatic economic stabilizers decrease government revenues and increase government expenditures in periods of weak economic activity without requiring new government action.
- Weak demand for goods and services during the recent recession and slow recovery has reduced output and employment, in CBO's view.
- In CBO's assessment, the increase in UI outlays during the past several years has raised consumer spending, output, and employment relative to what they otherwise would have been.

Short-Run Policy Options

- Extend EB and EUC as they existed at the end of 2012 through 2013 (estimated cost, \$30 billion).
- Partially extend EUC tier 1 benefits only through 2013 (estimated cost, \$14 billion).
- Do not extend EB or EUC, but allow EUC recipients to finish the tier they were in as of December 31, 2012 (estimated cost, \$4 billion)
- Extend temporary provisions of the EB program for one year (estimated cost, \$3 billion)
- Delay states' scheduled repayments to the Unemployment Trust Fund for one year.

EB and EUC Programs Extended Through 2013

- Lawmakers extended EB and EUC—as they existed at the end of 2012—through the end of this year, with the enactment in January 2013 of the American Taxpayer Relief Act of 2012.
- CBO expects that output and employment will be higher in the fourth quarter of 2013 than if those programs had expired.
 - GDP is expected to be 0.2 percent higher.
 - Full-time-equivalent employment is expected to be 0.3 million higher.

Longer-Run Policy Approaches: Restructuring Benefits to Encourage Employment

- Provide bonuses to eligible workers upon reemployment.
- Establish personal reemployment accounts for at-risk laid-off workers that can be self-directed either to career training or to reemployment bonuses.
- Establish unemployment insurance savings accounts that require workers to save a fixed share of before-tax income for withdrawal during eligible periods of unemployment; remaining balances would convert to an IRA.
- Expand short-time compensation to encourage states to provide benefits to workers whose hours have been cut involuntarily.

Longer-Run Policy Approaches: Changing the Mix of State and Federal Roles

- Give states more predictability in funding and more flexibility in implementing UI programs.
 - Federal funding could be automatically tied to state and national unemployment rates.
 - States would have more autonomy in administering programs.
- Require that states' tax and benefit policies be within a narrower range than under current policy or federalize the UI system by collecting taxes and administering benefits at the federal rather than at the state level.

Longer-Run Policy Approaches: Changing the Distribution of Resources Within the UI System

- Change the limit on earnings that are taxable under the Federal Unemployment Tax Act.
 - Direct effect would make FUTA taxes less regressive.
 - Effect on states' taxable wage bases would also make some states' UI tax systems less regressive.
- Change the weekly benefit amount.
 - Require states to adopt a higher replacement rate.
 - Alter the limit on earnings that are subject to the federal unemployment tax.
- Provide wage insurance.